

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 812 - SB 1873

March 7, 2011

SUMMARY OF BILL: Requires the Commissioner of Finance and Administration, in consultation with the Commissioner of Revenue, on April 15 of each year, to certify the amount of state surplus revenue collected above budgeted estimates during the current fiscal year, and to notify the Governor, the State Treasurer, and the Speakers of the Senate and House of Representatives, for the purpose of enacting 0.5 percent rate reductions to the state sales tax rate on food and food ingredients for the next fiscal year when surplus revenue exceeds \$50,000,000. Requires the Commissioner of Revenue, by June 15 of each year, to publish the rate of taxation on food and food ingredients that will be effective on July 1.

ESTIMATED FISCAL IMPACT:

Other Fiscal Impact - The fiscal impact of this bill is dependent upon the fiscal years the state realizes surplus revenue exceeding \$50,000,000, and the extent of food sales growth in the future. In fiscal years when state surplus revenue exceeds \$50,000,000, the net decrease to state revenue for the following fiscal year is estimated to exceed \$41,456,300; the net decrease to local government revenue is estimated to exceed \$1,507,700.

Assumptions:

- Fifty percent of tax savings will be spent on other non-food sales-taxable goods and services.
- According to the Department of Revenue, state sales tax collections from food and food ingredients in FY09-10 were approximately \$476,900,000.
- Based on historical growth rates for food sales, retail sales of food and food ingredients grow by two percent per year. Under current law, state sales tax collections from food and food ingredients for FY11-12 are estimated to be \$496,166,800 ($\$476,900,000 \times 102.0\% \times 102.0\%$).
- Each half-percent increment of the current 5.5 percent state sales tax rate levied on food and food ingredients generates approximately \$45,106,073 [$\$496,166,800 / (5.5 / 0.5)$] of state sales tax revenue. Therefore, a decrease in state sales tax revenue of \$45,106,073 in any fiscal year the revenue surplus exceeds \$50,000,000.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of all state sales tax revenue as state-shared sales tax revenue.

- Local governments are not held harmless from the loss of state-shared sales tax revenue.
- The decrease in local government revenue from loss of state-shared sales tax revenue, in any fiscal year the revenue surplus exceeds \$50,000,000, will be \$2,071,496 ($\$45,106,073 \times 4.5925\%$).
- The increase in state sales tax revenue as a result of 50 percent of tax savings being spent on other non-food sales-taxable goods and services, in any fiscal year the revenue surplus exceeds \$50,000,000, will be \$1,578,713 ($\$45,106,073 \times 50.0\% \times 7.0\%$ state sales tax rate).
- Due to the natural growth of food sales, the net decrease in state revenue, in any fiscal year the revenue surplus exceeds \$50,000,000, will exceed \$41,456,264 ($\$45,106,073 - \$2,071,496 - \$1,578,313$).
- The increase in local option sales tax revenue as a result of 50 percent of tax savings being spent on other non-food sales-taxable goods and services, in any fiscal year the revenue surplus exceeds \$50,000,000, will be \$563,826 ($\$45,106,073 \times 50.0\% \times 2.5\%$ local option sales tax rate).
- Due to the natural growth of food sales, the net decrease in local government revenue, in any fiscal year the revenue surplus exceeds \$50,000,000, will be \$1,507,670 ($\$2,071,496 - \$563,826$).
- Any increase in state expenditures for the Commissioner of Revenue to publish the rate of taxation will not be significant and can be accommodated within existing resources without an increased appropriation or a reduced reversion.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc